FDIC State Profile

Spring 2006

Michigan

Michigan posted the fifth consecutive year of job losses.

- Michigan payrolls declined 17,000 (0.4 percent) during the year ending fourth quarter 2005, bringing the total number of jobs lost since 2000 to approximately 290,000. State manufacturing job losses increased compared to a year ago (see Chart 1). Many of these losses were in the auto industry, which continued to face financial difficulties. Two major auto parts suppliers, Delphi and Dana, have filed for bankruptcy, while General Motors and Ford continue to restructure.
- Most of the state's major employment sectors were hurt by the ripple effect from manufacturing job losses, particularly Michigan's government sector that shed jobs because of lower state tax revenue and budget issues.
- In general, Michigan's largest employment gains occurred in lower paying service sector jobs, while traditionally higher paying sectors continued to experience job losses or slower growth.
- The prolonged poor employment picture in Michigan has contributed to a significant slowing of population growth during the past five years (see Chart 2). For 2005, the state's population growth rate of 0.2 percent ranked seventh slowest among all states. Growth among the 25- to 64-year age group in the state, a key segment of the workforce that encompasses most entrepreneurs and small business owners, is projected to decelerate to 0.1 percent by 2014 compared to 0.5 percent in 2004.[1]

Michigan's weak economy weighed on household conditions.

- Job losses across many of the state's higher paying sectors coupled with relatively slow population growth in the 25- to 64-year age group contributed to a decline in household income during the past five years (see Chart 3). During 2004, Michigan's median household income dipped below the national level for the first time since 1990. Since 1999, median income in the state has declined 8.2

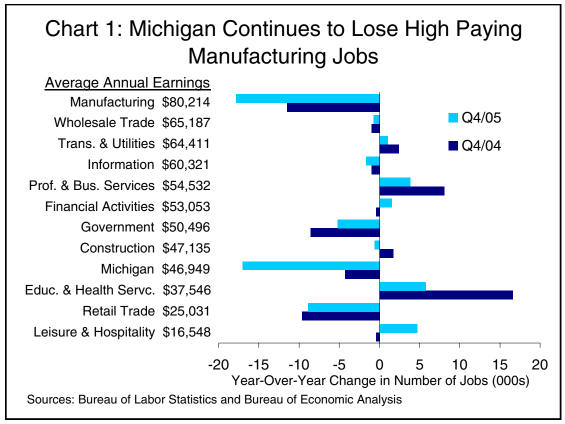


Chart 1: Michigan Continues to Lose High Paying Manufacturing Jobs

Sources: Bureau of Labor Statistics and Bureau of Economic Analysis

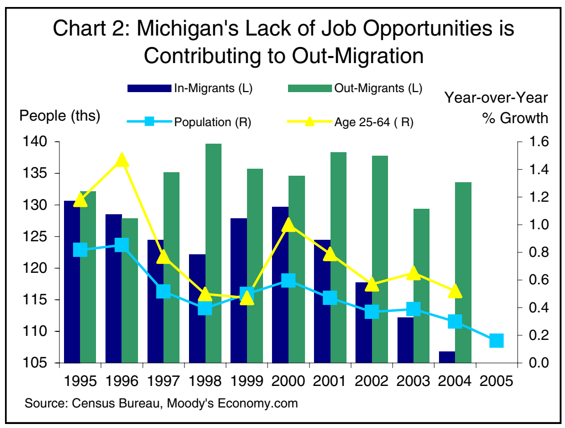


Chart 2: Michigan's Lack of Job Opportunities is Contributing to Out-Migration

Source: Census Bureau, Moody's Economy.com

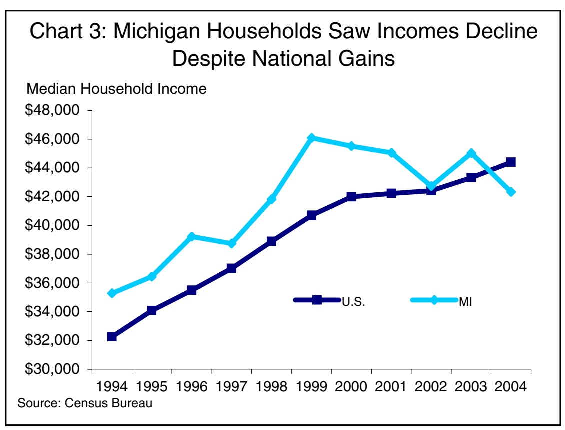


Chart 3: Michigan Households Saw Incomes Decline Despite National Gains

Source: Census Bureau

[1] Census Bureau.

percent, compared with a 9.1 percent increase for the nation.

- Personal bankruptcy filings and mortgage foreclosures in Michigan continued to increase. Fourth quarter 2005 annualized personal bankruptcy filings per 1,000 people totaled 11.4 for the state compared with 8.8 for the nation. The state's mortgage foreclosure rate reached 2.5 percent during 2005, compared to 1.6 percent for the nation.

- The relatively slow rate of home price appreciation across Michigan constrains homeowners' ability to tap equity in their homes. During fourth quarter 2005, the state's home appreciation rate of 3.8 percent ranked lowest in the nation and was significantly below the national average of 13.0 percent.

Net interest margins (NIMs) improved for Michigan community institutions, despite a flattening yield curve. [2]

- During 2005, Michigan community institutions earned a record $316 million, a $7 million (2.3 percent) increase over 2004. However, profitability as measured by return on assets (ROA) declined somewhat as gains in net interest income were offset by lower levels of noninterest income (see Table 1). On an annual basis, noninterest income declined to its lowest level in five years.

- During 2005, NIMs improved despite further flattening of the yield curve as the yield on earning assets increased more than the cost of funds. NIMs improved more significantly for the state's commercial lenders (12 basis points) than for Michigan's mortgage lenders (5 basis points).[3] Higher levels of loan growth and increases in asset yields reported by the commercial lenders offset a greater rise in funding costs relative to mortgage lenders.

- Should a flat yield curve persist, NIM growth may decelerate or decline, particularly for mortgage lenders who typically hold longer-term assets and face competition for deposits. Mortgage lenders reported a decrease in core deposits during 2005, while Michigan's commercial lenders reported core deposit growth.

Asset quality indicators started to reflect weak economic conditions.

- Total loan delinquencies for Michigan community institutions increased to 2.3 percent at year-end 2005, up seven basis points from a year ago; rates increased for most major loan categories (see Chart 4).

- Michigan insured institutions reported the eighth highest past-due ratio in the nation at year-end 2005; the median delinquency rate was 1.8 percent at year-end 2005, compared to 1.3 percent for all states.

- The state's median fourth quarter net charge-off ratio ranked 12th highest in the nation, and its median loan loss reserve to noncurrent loan ratio ranked sixth lowest among all states.

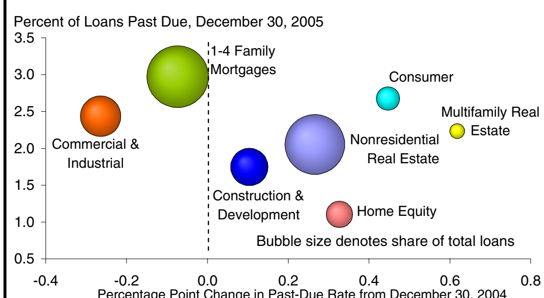
Table 1: Lower Noninterest Income Harmed Profitability Despite Stronger Margins

Income statement contribution (percent of average assets)	Calendar year 2004	Calendar year 2005	Percentage Point Change
Net Interest Income	3.77	3.88	0.11
Noninterest Income	1.02	0.87	-0.15
Noninterest Expense	-3.09	-3.10	-0.01
Provision Expense	-0.20	-0.21	-0.01
Security Gains & Losses	0.01	0.00	-0.01
Pretax Net Income	1.51	1.44	-0.07
Income Taxes	-0.43	-0.41	0.02
Net Income (ROA)	1.08	1.03	-0.05

Source: FDIC

Note: Merger-adjusted data for Michigan's Community Institutions

Chart 4: Delinquency Rates Rose for Most Loan Categories



Source: FDIC Note: Merger-adjusted data for Michigan's Community Institutions

[2] Community institutions are insured banks and thrifts with less than $1 billion in assets, excluding new (less than three years old) and specialty banks. Data adjusted for merger activity.

[3] "Mortgage lenders" are defined as insured institutions that hold at least 50 percent of assets in 1-4 family mortgage loans and mortgage-backed securities. "Commercial lenders" hold at least 25 percent of assets in commercial and industrial and commercial real estate loans.

Michigan at a Glance

ECONOMIC INDICATORS (Change from year ago, unless noted)

Employment Growth Rates	Q4-05	Q3-05	Q4-04	2004	2003
Total Nonfarm (share of trailing four quarter employment in parentheses)	-0.4%	-0.4%	-0.1%	-0.3%	-1.5%
Manufacturing (15%)	-2.6%	-2.7%	-1.6%	-2.7%	-5.7%
Other (non-manufacturing) Goods-Producing (5%)	-0.2%	0.0%	0.9%	0.4%	-4.5%
Private Service-Producing (65%)	0.2%	0.3%	0.5%	0.3%	-0.5%
Government (15%)	-0.7%	-1.2%	-1.2%	-0.8%	-0.2%
Unemployment Rate (% of labor force)	6.5	6.6	7.1	7.0	7.1

Other Indicators	Q4-05	Q3-05	Q4-04	2004	2003
Personal Income	N/A	3.6%	1.8%	1.8%	4.9%
Single-Family Home Permits	-19.2%	-11.8%	-5.1%	1.5%	6.3%
Multifamily Building Permits	-20.2%	-35.4%	15.3%	0.9%	-2.3%
Existing Home Sales	-11.1%	-1.7%	-5.9%	2.9%	1.9%
Home Price Index	3.8%	4.2%	4.5%	4.4%	3.4%
Nonbusiness Bankruptcy Filings per 1000 people (quarterly annualized level)	11.39	8.98	6.09	6.28	6.16

BANKING TRENDS

General Information	Q4-05	Q3-05	Q4-04	2004	2003
Institutions (#)	174	175	173	173	178
Total Assets (in millions)	212,187	215,046	194,630	194,630	196,664
New Institutions (# < 3 years)	6	7	4	4	8
Subchapter S Institutions	12	12	12	12	10

Asset Quality	Q4-05	Q3-05	Q4-04	2004	2003
Past-Due and Nonaccrual Loans / Total Loans (median %)	1.81	1.79	1.82	1.82	2.15
ALLL/Total Loans (median %)	1.20	1.22	1.24	1.24	1.30
ALLL/Noncurrent Loans (median multiple)	1.56	1.67	1.67	1.67	1.41
Net Loan Losses / Total Loans (median %)	0.11	0.06	0.13	0.12	0.14

Capital / Earnings	Q4-05	Q3-05	Q4-04	2004	2003
Tier 1 Leverage (median %)	9.62	9.60	9.25	9.25	9.08
Return on Assets (median %)	1.04	1.05	1.00	0.97	1.10
Pretax Return on Assets (median %)	1.38	1.47	1.41	1.35	1.52
Net Interest Margin (median %)	4.21	4.28	4.19	4.08	4.12
Yield on Earning Assets (median %)	6.62	6.39	5.87	5.72	6.00
Cost of Funding Earning Assets (median %)	2.34	2.14	1.75	1.70	1.99
Provisions to Avg. Assets (median %)	0.15	0.12	0.15	0.15	0.19
Noninterest Income to Avg. Assets (median %)	0.67	0.71	0.70	0.73	0.89
Overhead to Avg. Assets (median %)	3.12	3.06	3.02	2.97	3.12

Liquidity / Sensitivity	Q4-05	Q3-05	Q4-04	2004	2003
Loans to Assets (median %)	77.2	76.2	76.2	76.2	74.0
Noncore Funding to Assets (median %)	23.0	22.3	20.5	20.5	18.6
Long-term Assets to Assets (median %, call filers)	11.3	11.2	11.8	11.8	12.5
Brokered Deposits (number of institutions)	83	81	68	68	63
Brokered Deposits to Assets (median % for those above)	9.2	8.1	8.6	8.6	7.1

Loan Concentrations (median % of Tier 1 Capital)	Q4-05	Q3-05	Q4-04	2004	2003
Commercial and Industrial	92.8	90.7	88.3	88.3	93.4
Commercial Real Estate	261.0	253.2	255.5	255.5	236.9
Construction & Development	55.1	54.3	51.3	51.3	45.9
Multifamily Residential Real Estate	6.5	6.2	5.1	5.1	4.9
Nonresidential Real Estate	187.4	183.1	186.0	186.0	186.8
Residential Real Estate	270.8	271.9	272.5	272.5	287.2
Consumer	31.0	32.0	36.1	36.1	39.6
Agriculture	2.6	2.3	3.0	3.0	3.5

BANKING PROFILE

Largest Deposit Markets	Institutions in Market	Deposits ($ millions)	Asset Distribution	Institutions
Detroit-Warren-Livonia, MI	58	77,033	< $250 million	117 (67.2%)
Grand Rapids-Wyoming, MI	33	11,536	$250 million to $1 billion	44 (25.3%)
Lansing-East Lansing, MI	24	5,369	$1 billion to $10 billion	9 (5.2%)
Ann Arbor, MI	18	4,651	> $10 billion	4 (2.3%)
Flint, MI	14	4,050		